

**New Jersey State Health Benefits Commission  
September 5, 2006 Meeting**

**State Health Benefits Program (SHBP)**

**Recommended Plan Year 2007 Rate Renewal for Active  
Employees and Retirees of the Local Employer Group**

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- For Plan Year 2007 for the SHBP Medical Program (NJ PLUS, Traditional Plan, and Rx), Aon recommends a 7.6% average premium rate increase for Active Employees of the Local Employer Group, broken down as follows:

|                               | <b><i>Education</i></b> | <b><i>Government</i></b> |
|-------------------------------|-------------------------|--------------------------|
| <i>NJ PLUS</i>                |                         |                          |
| With Rx Plan                  | 5.1%                    | 6.3%                     |
| No Rx Plan                    | 5.1%                    | 6.3%                     |
| <i>Traditional Plan</i>       |                         |                          |
| With Rx Plan                  | 11.9%                   | 17.2%                    |
| No Rx Plan                    | 11.9%                   | 17.2%                    |
| <i>Prescription Drug Plan</i> | -8.1%                   | -8.1%                    |

- For Plan Year 2007 for the SHBP Medical Program (NJ PLUS, Traditional Plan, and Rx), Aon recommends a 0.6% average decrease in premium rates for Retirees of the Local Employer Group, broken down as follows:

|                         | <b><i>Education</i></b> |                        | <b><i>Government</i></b> |                        |
|-------------------------|-------------------------|------------------------|--------------------------|------------------------|
|                         | <b><i>Early</i></b>     | <b><i>Medicare</i></b> | <b><i>Early</i></b>      | <b><i>Medicare</i></b> |
| <i>NJ PLUS</i>          | -7.2%                   | -0.7%                  | -7.2%                    | -0.7%                  |
| <i>Traditional Plan</i> | 0.0%                    | 1.1%                   | 0.0%                     | 1.1%                   |

- The recommended renewal assumes:
  - Increase in office visit copays from \$5 to \$10 for NJ PLUS (State Employee copays are already \$10),
  - Increase Employee Prescription Drug copays to the same level as the State Employees,
  - Scheduled increases in the Brand Rx copays and the OOP maximum for Retirees, and

- Duplication of coverage under the SHBP will not be permitted in Plan Year 2007.
- Since the implementation of Mandatory Generics and Mandatory Mail-Order Service has been deferred, the cost projections and rates shown in the renewal report do not reflect any impact from Mandatory Generics or Mandatory Mail-Order Service.
- NJ PLUS capitation charges for MH/SA have exceeded actual claim experience for several years. For Plan Year 2006, Horizon/Magellan agreed to a risk-share arrangement which shares the savings if actual claims are lower than capitation, but does not charge the SHBP if claims exceed capitation. For Plan Year 2007, the MH/SA capitation is increasing 3.4%. Horizon/Magellan is only willing to continue the current risk share if the SHBP agrees to share the risk in both directions. Aon recommends that the SHBP not agree to this, and therefore the risk-share arrangement should be discontinued for Plan Year 2007 and MH/SA claims should be paid on a fee-for-service basis rather than capitation.
- Traditional Plan enrollment for Local Employer Active Employees continues to decrease. Plans with decreasing enrollment tend to experience higher trend, since they do not have younger, healthier new entrants to offset the impact of an aging population. The average age of Traditional Plan Local Employer Active Employee participants is now about 8 years older than the average age of NJ PLUS Local Employer Active Employee participants.
- The recommended renewal increases result in Plan Year 2007 Traditional Plan premium rates that are approximately 50% higher than Plan Year 2007 NJ PLUS premium rates for active employees. The Traditional Plan is in an upward assessment spiral. Aon recommends that the State Health Benefits Commission consider changes in benefit plan design and contribution formulas. Consideration should be given to replacing NJ PLUS and the Traditional Plan with a PPO, which would eliminate current differentials in health status between NJ PLUS and the Traditional Plan and move Traditional Plan employees into a plan with better provider discounts and more managed-care protocols.
- The recommended Plan Year 2007 premium rate adjustments for Medicare-Eligible Retirees reflect the anticipated impact of the

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Medicare Part D Retiree Drug Subsidy (\$688 per Medicare-Eligible individual).

- Since the projected cumulative surplus target for the Local Employer Group is projected to reach the target level of 2 months of plan costs by the end of Plan Year 2006, there is no margin in the Plan Year 2007 recommended rates and they are projected to result in neither loss nor gain for Plan Year 2007.